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SUBJECT: GEORGIA IMPROVES ITS RATING IN HERITAGE FOUNDATION'S
ECONOMIC FREEDOM REPORT

11. Summary: Georgia has improved its standing in the Heritage Foundation's annual Index of Economic Freedom. In 2008 it has moved up from 35th to 32nd out of 163 countries surveyed throughout the world. According to the conservative think tank's report, which measures countries' performance on ten different factors, Georgia scores highly in business freedom, fiscal freedom, freedom from government, investment freedom and labor freedom. Improvement is needed in the areas of property rights protection and corruption. End summary.

Economic Freedom Index

12. The Index of Economic Freedom published by the Heritage Foundation is a tool for policymakers and investors and is aimed at developing a systematic, empirical measurement of economic freedom in countries throughout the world. The Heritage Foundation is a well-known conservative think tank whose stated mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense.

The Foundation's 2008 Index of Economic Freedom measures 162 countries across 10 specific factors of economic freedom, such as Business Freedom, Trade Freedom, Fiscal Freedom, Freedom from Government, Monetary Freedom, Investment Freedom, Financial Freedom, Property Rights, Freedom from Corruption, and Labor Freedom.

13. The average economic freedom score worldwide is 60.6 percent. Scores approaching 100 represent higher levels of freedom. Countries with higher than an 80 percent index are classified as 'free', from 70 to 79.9 as 'mostly free', from 60 to 69.9 as 'moderately free', followed by 'mostly un-free' (50-59.9 percent) and 'repressed' (below 50).

Georgia Scores Highly

14. According to the 2008 Economic Freedom Report Georgia's economy, at 69.2 percent free, is above the world average of 60.3, making it the world's 32nd ranked economy and qualifying it in the category of 'moderately free'. With this score, Georgia is in the company of Spain, Austria, Norway, Slovak Republic, Czech Republic and El Salvador. Georgia is ranked 18th out of 41 countries in the European region, and its overall score is above the European regional average of 66.8.

15. Out of ten factors evaluated, Georgia scored extraordinarily well in business freedom, fiscal freedom, government size, investment freedom and labor freedom. The report concludes that business operations are simple and not hampered by red tape. A very low top

income tax rate complements the low corporate tax rate, and government tax revenue is relatively low as a percentage of GDP. Georgia is strongest in labor freedom, according to the Heritage Foundation, because its labor market is highly flexible and far freer than those of most advanced economies.

¶6. The report concludes that only two categories remain significantly below the world average: protections of property rights and freedom from corruption. Property rights are not adequately protected by the courts because of inefficiency and persistent corruption. The report recognizes that thousands of civil servants and police have been fired and high-level officials arrested for corruption, but finds the government still faces a significant challenge in controlling the problem. Georgia's score for freedom from corruption is only 28 percent.

¶7. Georgia's Business Freedom Index is 85 percent compared to last year's 78.9 percent. The report states that starting a business takes an average of 11 days, compared to the world average of 46 days. Obtaining a business license and closing a business are relatively simple, and overall freedom to start, operate, and close a business is relatively well protected by the national regulatory environment. Obtaining a business license requires less than the world average of 19 procedures and 234 days.

¶8. Fiscal Freedom is 90.7 percent (compared to 94.2 percent in 2007), as Georgia has low tax rates. Freedom from Government is ranked at 81.3 percent (91.3 percent in 2007). The change is due to increasing government spending for consumption and transfer payments. In the most recent year, government spending equaled 25 percent of GDP. Progress in privatizing state-owned enterprises has been substantial. Trade Freedom is 71 percent. Georgia has made a significant progress towards liberalizing its trade regime, but agricultural subsidies, an inefficient customs process and other barriers continue to add to the cost of trade. Monetary freedom is 71.4 percent. Inflation is relatively high, averaging 8.7 percent

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between 2004 and 2006. Relatively unstable prices explain most of the monetary freedom score. Georgia's score would have been 10 percentage points higher if not for governmental measures that distort domestic prices. Investment freedom is 70 percent and financial freedom 60 percent. Georgia together with Denmark leads the world in labor market freedom. The labor market operates under highly flexible employment regulations that, according to the Heritage Foundation, enhance employment and productivity growth.

¶9. As a transforming post-Communist economy, Georgia still has much to improve. Trade freedom, property rights, and freedom from corruption remain below desirable levels, and an inefficient bureaucracy burdens many commercial sectors. According to the report, non-tariff trade barriers are relatively high, and property rights cannot be guaranteed because of inefficiency and persistent corruption in the courts. With regard to property rights protections, Georgia scores a 35 percent, low compared to its other scores. The report states that many in Georgia doubt the judicial system's ability to protect private property and contracts. It singles out weak enforcement of laws protecting intellectual property rights for criticism.

Georgia vs. Former Soviet Union

¶10. For comparison, Georgia's neighboring states received much lower scores, except Armenia, which came in at number 28 in the world, four places ahead of Georgia. Russia is ranked as 134th (120th in 2007), Azerbaijan 107th, and Turkey 74th. As for the other former Soviet republics, Georgia lags behind Estonia (12) and Lithuania (26), but scored better than Latvia (38), Kazakhstan (76) and Ukraine (133). Georgia even topped some European economies such as Norway (34), Portugal (53), France (48) and Italy (64).

¶11. Georgia's progress to date has also been reflected in Transparency International's Anti-corruption in Transition report and the World Bank/IFC's Doing Business survey. The latter found

Georgia to be the 18th easiest country in which to do business.
Georgia may move further up in the next Heritage rating, if it can
improve those areas, such as the fairness and impartiality of the
judicial system, that are holding it back.

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